



Philip K. Bell
President

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21st Century Steelmakers

The Honorable Richard E. Neal
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Re: Hearing on U.S.-China Trade

Dear Chairman Neal:

Attached for inclusion in the record of the February 27, 2019 hearing on U.S.-China Trade are comments I respectfully submit on behalf of the Steel Manufacturers Association.

The Steel Manufacturers Association (SMA), represents 26 electric arc furnace steel producers, 24 of which produce steel in the United States. Electric arc furnace steel producers account for nearly 70 percent of domestic steelmaking capacity. Through EAF steel production, our sector has significantly reduced carbon emissions. Products produced by SMA members routinely contain over 95 percent recycled content. As SMA's President, I also serve on ITAC 7, the Steel International Trade Advisory Committee.

Chinese Policies Led to Global Excess Capacity and the Steel Crisis

SMA's steel producing members have faced long-term threats from China's distortive trade and economic policies. In 2006, China's growing steel production exceeded domestic demand for the first time and China became a net steel exporter. China made industrial policy decisions to continue to expand its steel capacity during the 2008 financial crisis and its aftermath, when the U.S. steel industry and most of the rest of the world's industries suffered severe production cuts and closures. Between 2009 and 2015, China's capacity to make steel expanded a further 350 million metric tons (more than the total existing capacity of the United States and Europe combined). This occurred even though steel demand in China had peaked. The resulting excess steelmaking capacity and increased Chinese exports severely disrupted global markets, led to repeated surges of U.S. imports of steel from many countries and suppressed U.S. steel production and capacity utilization for over a decade, resulting in lost U.S. jobs and reduced investment in the domestic steel sector.

In March 2018, the Administration took national security action under section 232 of the Trade Expansion Act of 1962 to adjust steel imports and counteract the adverse effects on this prolonged crisis on the U.S. steel industry. However, because the underlying causes of global excess capacity remain unaddressed, SMA strongly supports the ongoing efforts by the Office of the U.S. Trade Representative (USTR) to address Chinese policies that distort trade, investment and competition through the Section 301 unfair trade practices investigation, the 301 measures and the negotiations with China to eliminate unfair practices.

We are optimistic that U.S. negotiators understand the nature of the problems posed by China's industrial policies and are working very hard to bring home an enforceable agreement with China that will effectively deal with its distortive policies, including those in the steel sector. Such an agreement should address the industrial policies that contributed to excess capacity in the Chinese steel sector and associated sectors and make measurable progress to remove them. Chinese policies that have served to expand steel production and provide unfair benefits to Chinese steel producers and exporters include: industrial subsidies, benefits to state owned enterprises in strategic sectors such as steel, export subsidies, import substitution subsidies, discriminatory and coercive investment policies, forced technology transfer, theft of intellectual property, currency manipulation and distortive raw materials policies (import and export restrictions, export taxes and provision of raw materials for less than adequate remuneration). Each of these distortive practices contributed to the severe imbalances in the Chinese steel sector and the global excess steel capacity that persists today.

China Industrial Policies Continue to Distort Markets in the Steel Sector

While Chinese officials frequently make public comments about their efforts to rein in excess capacity, limited actions have been taken by the Chinese government to date, and these actions have had very little practical effect on global steel markets. In 2018, China's steel production reached 928.3 million metric tons,¹ a historic high, and a 6.6 percent increase over 2017 levels, while Chinese domestic steel demand growth in 2018 was expected to be no more than 2 percent.² China currently accounts for 51 percent of global steel production,³ up from 50 percent last year. Chinese analysts are now predicting that "[o]vercapacity in [the] China steel industry will still exist for the long run."⁴

While China claims to have closed over 100 million metric tons of steelmaking capacity since 2017, it has also sought to expand the role of its state-owned steel companies in steel investments in other countries. Indeed, following the Chinese government's efforts to close polluting and inefficient capacity in 2017, actual Chinese induction furnace equipment from plants closed in China was shipped to Southeast Asia for new steelmaking plants.⁵ Chinese companies have received state support from China Development Bank, China Export Import Bank and China Investment Corporation to build and purchase

¹ *Global crude steel output increases by 4.6 percent in 2018*, Worldsteel Association, January 25, 2019. <https://www.worldsteel.org/media-centre/press-releases/2019/Global-crude-steel-output-increases-by-4.6--in-2018.html>

² *Short Range Outlook*, Worldsteel Association, October 2018. <https://www.worldsteel.org/media-centre/press-releases/2018/worldsteel-Short-Range-Outlook-2018-2019.html>

³ *World Crude Steel Production Statistics*, Worldsteel Association, May 2018. <https://www.worldsteel.org/en/dam/jcr:1fd4a9e7-c787-457d-b780-988db153aa23/Steel%2520May%25202018.pdf>

⁴ *China Steel Industry Enters into High-Quality Development Stage; Analysis and Forecast on China Steel Market*, Dr. Wu Wenzhang, President and Chairman SteelHome China, Presentation at the American Metal Market/World Steel Dynamics Steel Success Strategies Conference, New York, June 27, 2018.

⁵ *China's Outcast Steel Machines Find Unwelcome Home in Southeast Asia*, by Manolo Serapio, Reuters, December 16, 2018. <https://www.reuters.com/article/us-steel-asia-china-analysis/chinas-outcast-steel-machines-find-unwelcome-home-in-southeast-asia-idUSKBN1OG06E>

plants in other countries, in effect creating additional capacity in other countries, further contributing to the global excess capacity problem.⁶

China Global Infrastructure Policies

China is seeking to expand its global share of infrastructure and construction projects. Steel, building materials, and power and resource development are among the sectors China's State Council has identified for "international industrial capacity and equipment manufacturing cooperation."⁷ The Government of China has pledged over \$1 trillion to support its "One Belt One Road" Initiative (OBOR) to fund large ports, roads, bridges and other steel-intensive projects in the countries between China and Europe. China's industrial overcapacity is a big motivator for the OBOR initiative,⁸ and China has invested billions of dollars in new steelmaking capacity in OBOR countries such as Bangladesh, Laos, India, Indonesia and Serbia,⁹ further exacerbating global excess capacity.

China's State Council has also stated that it is seeking to "actively tap the markets of advanced countries"¹⁰ such as the United States. Indeed, when President Trump announced his \$1 trillion U.S. infrastructure initiative last year, government officials from China's Development Bank and other ministries urged the United States to work with Chinese companies to increase Chinese participation in U.S. infrastructure projects.^{11 12} As the 116th Congress considers much-needed new U.S. infrastructure spending, we urge caution be taken to ensure Chinese policies to support infrastructure investment are not allowed to make inroads in the U.S. market. In our view, U.S. steel producers should supply the steel for U.S. infrastructure projects, consistent with U.S. laws and Buy America government procurement provisions, accruing the benefits of U.S. government infrastructure investment to U.S. workers and companies, not to Chinese infrastructure companies.

⁶ *How China Skirts America's Antidumping Tariffs on Steel*, by Matthew Dalton and Lingling Wei, The Wall Street Journal, June 4, 2018. <https://www.wsj.com/articles/how-china-skirts-americas-antidumping-tariffs-on-steel-1528124339>

⁷ *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974*, March 22, 2018, p 68. <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>

⁸ *U.S. Firms Want in on China's Global "One Belt, One Road" Spending*, by Keith Bradsher, The New York Times, May 14, 2017. <https://www.nytimes.com/2017/05/14/business/china-one-belt-one-road-us-companies.html>

⁹ *China Global Investment Tracker*, Derek Scissors, American Enterprise Institute. <http://www.aei.org/china-global-investment-tracker/>

¹⁰ *Guiding Opinions on Promoting International Cooperation in Industrial Capacity and Equipment Manufacturing* (State Council, Guo Fa [2015] No. 30, issued May 13, 2015). English translation https://www.mizuhobank.com/fin_info/cndb/economics/briefing/pdf/R216-0027-XF-0105.pdf

¹¹ *China Can Help U.S. with Infrastructure Plan*, by Liu Yong, Chief Economist China Development Bank, January 30, 2018. <http://www.chinadaily.com.cn/a/201801/30/WS5a6fb4b7a3106e7dcc1377ab.html>

¹² *China tells Donald Trump: We Can Help Make America's Infrastructure Great Again*, by Catherine Wong, South China Morning Post, April 26, 2018. <https://www.scmp.com/news/china/diplomacy-defence/article/2143586/china-tells-donald-trump-we-can-help-make-americas>

March 13, 2019

Conclusion

To increase pressure on China to amend its unfair trade and economic practices, address overcapacity and eliminate the adverse effects of excess capacity on U.S. steelmakers, SMA strongly supports the efforts led by USTR to negotiate effective agreements with China to end these distortive practices.

Please do not hesitate to contact me at (202) 296-1515 if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Philip K. Bell".

Philip K. Bell